
HEALTH AND HUMAN SERVICES

Department of Health Services

Medi-Cal

The Governor's Budget proposes \$31.2 billion (\$11.6 billion General Fund) for the Medi-Cal program in 2004-05, a General Fund increase of 16.2 percent above the 2003 Budget Act. The General Fund increase primarily reflects the cost of using one-time savings in 2003-04 from the accrual-to-cash accounting change within the Medi-Cal program and the enhanced Federal Medical Assistance Percentage (FMAP) received in 2003-04 as a result of Section 401(a) of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003.

Since 1998-99, Medi-Cal beneficiaries have increased from 5 million eligibles to nearly 6.8 million eligibles projected for 2004-05, an increase of 1.8 million beneficiaries.

Improving Accountability and Service Delivery

Generally speaking, since Medi-Cal costs are driven by the number of eligibles, the services provided, and the rates paid to providers for the services, options for controlling costs include serving fewer people (for example, by eliminating recent eligibility expansions), providing fewer services (for example, by eliminating optional benefits), or reducing rates paid to providers.

To begin the process of reducing escalating, unsustainable costs, the 2003-04 Mid-Year Spending Reduction Proposals included



solutions to achieve General Fund savings of \$206.9 million in 2003-04 and \$479.4 million in 2004-05, as follows:

- Additional 10 percent rate reduction for specified Medi-Cal providers, including physicians, non-emergency medical transportation, home health, and other medical providers and services, achieving General Fund savings of \$160.9 million in 2003-04 and \$462.2 million in 2004-05.
- Elimination of the Wage Adjustment Rate Program, which was established in 2000-01 to provide supplemental payments to long-term care facilities that have a collectively bargained agreement to increase salaries, wages, or benefits for care-givers, to achieve General Fund savings of \$46 million in 2003-04.
- Capping enrollment in Medi-Cal for immigrants at the January 1, 2004, level (909,500 beneficiaries), to achieve General Fund savings of \$17.2 million in 2004-05.

Medi-Cal Reform—The Governor's Budget embraces an alternative, strategic approach to controlling costs in the Medi-Cal program. It proposes to reform the Medi-Cal program, so that in the long-term, Medi-Cal can be flexible enough to meet the medical needs of beneficiaries at costs that are affordable to the State. Reform strategies could include simplification, a multi-tiered benefit structure for mandatory and optional beneficiaries, co-payments, eliminating some Medi-Cal services that exceed standard private health insurance benefit packages, and expansion of managed care. This proposal may not result in General Fund savings in the budget year (no savings are included in the Budget) as a result of the lengthy process of reforming the existing Medi-Cal eligibility, benefit, and managed care structure, as well as securing State and federal approvals. The Administration intends to engage numerous stakeholders and constituencies in this effort. Implementation is expected to begin in 2005-06, and would use a phased-in approach, allowing the State to monitor the progress, and make adjustments as needed as implementation issues arise. It is anticipated that a minimum of \$400 million General Fund savings will be achieved in 2005-06. Other states have undertaken similar program reforms and achieved long-term program savings ranging from 5 percent to 10 percent.

Medi-Cal Anti-Fraud and Audit Efforts—The Governor's Budget also proposes to expand the Medi-Cal anti-fraud and audit efforts, as well as implement other program enhancements and efficiencies. Anti-fraud efforts implemented since 2000-01 have resulted in General Fund savings of \$371 million and cost avoidance of \$352 million. The Governor's Budget includes the following proposals to further enhance efforts to combat fraud, waste, and abuse in the Medi-Cal program:

- **Enhance Medi-Cal Estate Recoveries and Increase Long-Term Care Insurance Purchases**—This proposal would close a loophole used by middle-income persons to prevent the State from recovering assets from their estates, achieving General Fund savings of \$237,000 in 2004-05. Concurrent with this proposal, the Department of Health Services (DHS) would continue to increase the number of middle-income persons purchasing long-term care insurance, which serves to control Medi-Cal program costs.
- **Expand Hospital Billing Audits**—This proposal would increase the number of field audits of fee-for-service (non-contract) hospital cost reports, home office cost reports, and related billings. The Governor's Budget proposes an additional 41 staff for the DHS to achieve net General Fund savings of \$1.4 million in 2004-05 and \$15.3 million annually thereafter.
- **Provider Feedback**—This proposal would allow the DHS to send mid-year billing data to Medi-Cal providers with suspicious billing patterns, achieving General Fund savings of \$2.5 million in 2004-05.
- **Beneficiary Confirmations**—This proposal would allow the DHS to confirm receipt of services or products with selected Medi-Cal beneficiaries via mail or on-site visits, achieving General Fund savings of \$1 million in 2004-05.
- **Restrict Electromyography and Nerve Conduction Tests to Specially-Trained Physicians**—This proposal would restrict billing to neurologists, physical medicine, and rehabilitation-trained physicians who have received specialized training in electromyography and nerve conduction tests, achieving General Fund savings of \$652,000 in 2004-05 and \$1.1 million annually thereafter.



- **Implement Counterfeit-Proof Prescription Pads**—This proposal would require all prescriptions for Medi-Cal beneficiaries to be written on prescription blanks obtained from State printing vendors, which would reduce forging and/or altering of prescriptions and provide an inventory of prescribers' drug orders. As there would be significant lead-time required for implementation of this proposal, there would be no savings in 2004-05. However, General Fund savings are estimated to be between \$7 million and \$14 million in 2005-06, with annualized savings increasing as the deterrent factor would also generate savings over time.
- **Convert 15 Limited-Term Medi-Cal Anti-Fraud Positions to Permanent**—The Budget Act of 2002 established 40 DHS positions for Medi-Cal anti-fraud activities. These positions, 15 of which will otherwise expire June 30, 2004, perform provider enrollment and re-enrollment reviews to identify, investigate, and remove fraudulent providers from the Medi-Cal program. Fifteen of these positions were established as limited-term to provide an opportunity to review the effectiveness of these positions. As a result of these additional 40 positions, savings due to Medi-Cal provider enrollment reviews increased from \$35.9 million (\$17.9 million General Fund) in 2001-02 to \$59.7 million (\$29.9 million General Fund) in 2003-04. The Governor's Budget proposes to provide \$1,239,000 (\$443,000 General Fund) to continue these limited-term Medi-Cal anti-fraud positions permanently.
- **Transfer Medi-Cal Audit Positions from State Controller's Office (SCO) to the DHS**—This proposal would shift the workload to 20 new positions at the DHS. This proposal would not change the amount of local assistance Medi-Cal savings due to anti-fraud activities, but it would reduce state operations costs for this workload by approximately \$300,000 General Fund due to efficiencies achieved, and would provide better coordination.
- **Reduce Medi-Cal Provider Float**—This proposal would delay Medi-Cal checkwrites by one week, to allow additional time for the DHS to investigate potentially fraudulent claims before checks are issued, achieving one-time General Fund savings of \$143.5 million in 2004-05. The Administration anticipates

that the one-time savings would be replaced with some level of ongoing savings from reduced fraud.

Program Enhancements and Other Budget Adjustments

- **Assess Quality Improvement Fee on Medi-Cal Managed Care Plans**—The Governor's Budget proposes to allow the DHS to assess a 6 percent quality improvement fee on all lines of business within the Medi-Cal managed care plans as a vehicle for leveraging and receiving additional federal funding. Medi-Cal managed care plans wishing to participate would be required to break off the Medi-Cal portion of their business into a separate entity as a condition of federal approval. This proposal would generate additional federal funding for the health plans and would result in savings of \$75 million for the General Fund in 2004-05.
- **Controlling County Administration Costs within the Medi-Cal Program**—Because counties do not share in either the administrative or benefit costs of Medi-Cal, there is no incentive for counties to control Medi-Cal costs. The Governor's Budget proposes to implement a formal plan to control county welfare department allocations for Medi-Cal eligibility determinations. The DHS would submit a control plan to county welfare departments in January 2005, including productivity standards and overall performance standards. Budget bill language is also proposed to restrict county wage increases to specified cost-of-living adjustments (COLAs), with the intent of reducing the wide disparity in efficiency that exists among the different counties. This proposal would result in General Fund savings of \$10 million in 2004-05, with savings reaching \$20 million at full implementation.
- **Adult Day Health Care Reform**—This proposal would institute Adult Day Health Care (ADHC) reform by implementing a one-year moratorium on new ADHC centers and a moratorium on certification for increased capacity of existing ADHC centers. These centers would continue to be licensed by the DHS and would continue receiving private pay reimbursement. This proposal would also remove therapy and transportation from the bundled ADHC reimbursement rate, allowing the ADHC centers to bill for these services separately. This



proposal would result in General Fund savings of \$12.7 million in 2004-05.

- **Reduce Interim Rates by 10 percent for Cost Reimbursed Acute Care Hospitals**—The Governor's Budget proposes to reduce, by 10 percent, the interim rate paid to acute care hospitals effective December 1, 2003. The hospitals would continue to be cost-settled at the end of the fiscal year, when the DHS has received and audited the hospitals' cost reports. This proposal would not reduce the total Medi-Cal payments for hospital inpatient services, but would result in General Fund savings of \$18.1 million in 2003-04 and \$31 million in 2004-05.
- **Revise Rate Methodology for Federally Qualified Health Centers and Rural Health Clinics**—These facilities, clinics that serve a large portion of the low-income population, receive enhanced reimbursement from Medicare and Medi-Cal. Federal legislation required reimbursement to these facilities be changed to a Prospective Payment System effective January 1, 2001. The new rates were to be calculated using the average of the 1999 and 2000 cost reports. However, the prior Administration allowed the election of only the 2000 cost report as an alternative rate methodology. Additionally, the calculation of these rates was based on reported, un-audited cost information, resulting in an overstatement of costs in some instances. This proposal would seek federal authority through a State Plan Amendment to eliminate the alternative rate methodology, and to recalculate and set the rates prospectively using the average of the 1999 and 2000 cost reports, as was originally required in the federal legislation, and base the rates on audited or reconciled cost information. This proposal would result in General Fund savings of \$3.8 million in 2003-04 and \$32.2 million in 2004-05.

Public Health

The DHS administers numerous public health programs to prevent disease and premature death and to enhance the health and well being of all Californians. Expenditures for all public health programs and state operations total \$3 billion (\$631.6 million General

Fund) in 2004-05. This represents a decrease of \$55.6 million, or 8.1 percent, below General Fund expenditures in the 2003 Budget Act. The Governor's Budget includes the following major funding adjustments:

- **Mid-Year Spending Reductions**—Continuing the reductions proposed during the 2003-04 Special Session and to institute controls on unsustainable spending growth, the 2004-05 Governor's Budget includes enrollment caps proposed for the Genetically Handicapped Persons Program (GHPP), the California Children's Services Program (CCS), and the Acquired Immune Deficiency Syndrome (AIDS) Drug Assistance Program (ADAP). In doing so, the Governor's Budget will continue to serve in the budget year up to 1,679 clients in the GHPP, approximately 37,600 clients in the CCS, and approximately 26,500 clients in the ADAP. These proposed enrollment caps will result in a combined savings of \$2.6 million General Fund.
- **Bioterrorism Prevention**—The Governor's Budget proposes \$108.9 million federal funds and 94.8 positions to enhance California's public health system's preparedness and response to bioterrorism, outbreaks of infectious diseases, and other public health threats and emergencies in 2004-05. In response to the heightened threat of bioterrorism, Congress authorized funding through the Public Health and Social Services Emergency Fund to support activities related to countering potential biological threats to the civilian population. Funding represents the 2004-05 portion of grants the DHS will receive from two separate federal agencies: the Centers for Disease Control and Prevention (CDC), and the Health Resources and Services Administration (HRSA).
- **GHPP Co-Payment Plan**—The Governor's Budget proposes to implement co-payments in the GHPP. This proposal would result in savings of approximately \$576,000 General Fund and will continue to maintain the same level of overall program funding which will serve an estimated 1,679 clients in the budget year.



Other Public Health Augmentations

- **Richmond Laboratories**—\$1.3 million (\$424,000 General Fund) in 2004-05 to install and maintain technology systems that support Phase III of the Richmond Laboratory Campus construction. This phase will complete consolidation of various laboratories and offices into one State facility.
- **Vital Records**—\$1.6 million special funds and 6.0 limited-term positions for the Vital Records Statewide Database are proposed for 2004-05. Implementation of a statewide database will allow State health offices to provide automatically-redacted copies of vital records to the public, and, thereby, protect privacy and help prevent fraudulent use of public records.
- **Electronic Death Registration System (EDRS)**—\$388,000 in special funds for the maintenance and operation of the EDRS is proposed for 2004-05. The System will provide automation of vital statistics on a statewide basis and will help address identity theft and related fraud by providing faster record review and administrative access.

Proposition 99 Expenditures

Californians continue to use fewer tobacco products each year, in part as a result of the effectiveness of the Tobacco Tax and Health Protection Act of 1988 (Proposition 99). Consequently, estimated revenues for 2003-04 will decline \$15.2 million. In 2004-05, total resources will be \$36.5 million below the 2003 Budget Act level, or \$323.1 million. Due to these declining revenues and higher expenditures in the Managed Risk Medical Insurance Board (MRMIB) programs, Proposition 99 funding to other health programs will decrease, as noted below:

- **2003-04 Expenditures**—The Governor's Budget includes expenditures of \$141.3 million to fund existing DHS programs, except for decreases of \$1.7 million in the California Healthcare for Indigents Program (CHIP) and \$3.2 million in DHS Health Education expenditures. University of California

Research will decline by \$2.2 million and the Department of Education expenditures by \$1.5 million.

- **2004-05 Expenditures**—The Governor's Budget proposes expenditures of \$123.4 million for DHS Proposition 99-funded programs in 2004-05. Funding for various MRMIB programs was increased by \$5.7 million. Due to lower revenues, funding for health programs decline by an average of 15.5 percent. Proposed decreases include the following:

- \$8 million for Health Education programs.
- \$7.4 million for University of California Research.
- \$6.1 million for the Breast Cancer Early Detection Program.
- \$4.2 million for the California Healthcare for Indigents program.
- \$3.6 million for the Department of Education.
- \$2.2 million for the various resources departments.

Managed Risk Medical Insurance Board

Healthy Families Program (HFP)—This program is a subsidized health insurance program for children in families with low-to-moderate income who are ineligible for no-cost Medi-Cal. This program provides low-cost health, dental, and vision coverage to eligible children from birth to age 19.

HFP expenditures for the Managed Risk Medical Insurance Board (MRMIB) grew from \$59.3 million (\$15.6 million General Fund) in 1998-99 to \$839.1 million (\$305.5 million General Fund) in 2004-05, an increase of \$289.9 million General Fund, or 1,858 percent. Since year-end 1998-99, children's caseload has grown from about 132,000 to an expected 732,000 children by June 30, 2004, and 737,000 in 2004-05 for a total increase of 605,000 children, or 458 percent. To address the significant, unsustainable growth in HFP expenditures, the Administration proposes to control future program expenditures by capping enrollment in the near term and providing higher-income pro-



gram subscribers with a choice of benefit packages in the long term. These proposals would not disenroll any current program subscribers.

- **Cap Healthy Families Enrollment**—As proposed in the Mid-Year Spending Reduction Proposals, enrollment in the HFP would be capped at the January 1, 2004, level, or an estimated 732,300 children. Waiting lists will be established and as attrition occurs, new enrollments will be accepted. This proposal would not result in current year savings due to the increased administrative costs to maintain the waiting list, but is expected to result in budget year savings of \$86.3 million (\$31.5 million General Fund).
- **Two-Tiered Benefit Structure for Children with Family Incomes Between 201 percent and 250 percent of the Federal Poverty Level (FPL)**—Children enrolled in the program with family incomes between 201 percent and 250 percent of the FPL (monthly income between \$2,544 and \$3,180 for a family of three) would be offered a choice of benefit packages. A two-tiered benefit package is proposed—a basic benefit package would be offered excluding dental and vision coverage at current premium levels, and a comprehensive package would include all benefits with higher monthly premiums. Due to the need to notify subscribers of the new benefit options, this proposal would not be implemented until 2005-06, and no savings are assumed in 2004-05.

Access for Infants and Mothers (AIM)—This program provides low-cost, comprehensive health insurance coverage to uninsured pregnant women up to 60 days post-partum and their infants up to two years of age with family incomes between 200 percent and 300 percent of the FPL. The Governor's Budget includes a total of \$117.3 million (\$98.6 million Perinatal Insurance Fund) for this program, a net decrease of \$750,000 (\$1.2 million General Fund decrease, \$2.6 million Perinatal Insurance Fund increase, and \$2.2 million federal fund decrease) below the 2003 Budget Act. These funding changes reflect updated caseload estimates, as well as the shift of certain infants born to AIM mothers into the HFP, in accordance with the omnibus health trailer bill to the 2003 Budget Act. Since 1998-99, caseload has grown from 6,288 women and infants to a total of 14,139 women and infants in 2004-05, or an increase of 125 percent.

Department of Social Services

California Work Opportunity and Responsibility to Kids

The Governor's Budget includes total California Work Opportunity and Responsibility to Kids (CalWORKs) expenditures of \$6.4 billion, which includes \$4.7 billion for CalWORKs program expenditures within the Department of Social Services budget, \$1.5 billion in other programs, and \$158.4 million for a CalWORKs program reserve. Other programs include the Statewide Automated Welfare System, Child Welfare Services, California Food Assistance Program, State Supplementary Payment, Foster Care, California Department of Education child care, California Community Colleges child care and education services, Department of Child Support Services (DCSS) disregard payments, the Department of Development Services, and county expenditures. Caseload growth is continuing to flatten after many consecutive years of decline. The revised caseload projections are 479,000 cases in 2003-04, and 481,000 cases in 2004-05.

- **CalWORKs Employment Services**—The Administration continues to invest in employment services, which allows recipients to move off of aid and into sustainable employment. The Budget includes an augmentation of \$191.9 million for employment services in 2003-04 and 2004-05. In addition, funding for employment services and administration in 2003-04 is increased by \$47.2 million above the 2003 Budget Act appropriation to fully fund projected caseload.
- **Temporary Assistance for Needy Families (TANF) Reserve**—The Budget includes a \$158.4 million TANF reserve to be available for unanticipated needs. A reserve of this magnitude is needed to mitigate the impact of several CalWORKs program pressures, including the reauthorization of the federal TANF program.

Tightening Work Participation Requirements

The Administration proposes reforms that reduce program costs while tightening work participation requirements, creating greater



incentives to work, and strengthening sanctions for not working. This proposal would create a stronger incentive for families to rely on program assistance for only a temporary period of time and to move quickly into employment and off of aid. The CalWORKs reform proposal includes the following three key elements:

- Requires families to participate at least 20 hours per week in core work activities within 60 days of the receipt of aid.
- Reduces the child-only grant by 25 percent for families that fail to meet work participation requirements within one month of being sanctioned.
- Reduces by 25 percent the child-only safety net grant that is provided to families that have reached their lifetime time limit and who are not working.

Prioritize Funding to Move Recipients into Sustainable Employment

To adhere to the policy of maintaining program costs within the TANF Block Grant and TANF maintenance-of-effort level, the Administration proposes to prioritize funding to invest in services that enable recipients to leave aid and become self sufficient. The following reductions accomplish this goal:

- Reduce CalWORKs grant levels by 5 percent as proposed in the Administration's mid-year spending reduction proposal, and suspend the CalWORKs grant COLA for 2004-05.
- Reduce funding for services to at-risk youth by \$134.3 million, leaving a total of \$67.1 million for prevention, intervention, supervision, treatment, and incarceration programs for at-risk youth and juvenile offenders. In addition to the \$67.1 million in federal TANF funding for county probation departments, the Budget includes \$100 million General Fund for Juvenile Justice Crime Prevention grants.
- Eliminate funding for three small discretionary programs for low-income women requiring alcohol and other drug treatment services, at-risk youth, and Native Americans requiring mental health and substance abuse services.

- Reduce by \$30.5 million the amount of State funding provided to the tribal entities to reflect declining tribal caseload.

Supplemental Security Income/ State Supplementary Payment Program

Total General Fund expenditures for the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program are projected to be over \$3.3 billion, a decrease of \$33.9 million, or 1 percent, from the 2003 Budget Act. Program caseload is estimated to increase to 1.2 million recipients in 2004-05, a 2.1 percent increase over the 2003-04 projected level.

Given the State's severe fiscal constraints, and to control the unsustainable costs in the SSI/SSP program, the Administration proposes that the January 2005 State COLA of 2.8 percent be suspended, and the pass-through of the January 2005 federal COLA of 1.8 percent be withheld for General Fund savings of \$134.7 million in 2004-05 and \$269.4 million annually thereafter. The overall grant payment standards will not decrease and will remain at the current levels of \$790 for an individual and \$1,399 for a couple. These grant levels reflect a 2.1 percent federal COLA that was passed through effective January 1, 2004.

Mid-Year Spending Reduction Proposal—The Administration has proposed to eliminate the California Veterans Cash Benefit Program for certain veterans who no longer reside in the United States, for General Fund savings of \$5.5 million.

In-Home Supportive Services

General Fund expenditures in the In-Home Supportive Services (IHSS) program are projected to be \$899.4 million in 2004-05, a \$373.5 million, or 29.4 percent, decrease from the 2003 Budget Act. In the absence of programmatic changes to reduce costs, costs are projected to increase 9.4 percent above the 2003 Budget Act. Given the State's severe fiscal constraints, and to control the unsustainable costs in the IHSS program, the Administration proposes to reduce the cost of providing services in the IHSS program and require immediate family members to meet more of the responsibility and/or costs for caring for disabled and elderly



persons, to avoid further, more significant, reductions to services. The reductions include: (1) reducing State funding for IHSS worker wages and benefits for General Fund savings of \$98 million, (2) making optional to counties the employer-of-record requirement for General Fund savings of \$987,000, (3) making optional to counties the advisory committees requirement for General Fund savings of \$1.2 million, and (4) eliminating domestic and related IHSS services in shared living situations for General Fund savings of \$26.3 million.

Mid-Year Spending Reduction Proposal—The Administration has proposed to eliminate the State-only Residual Program, which provides payments to parent and spouse caregivers, among other things. Many of these clients, however, will be eligible for the federally-funded portion of the IHSS program. This results in General Fund savings of \$88.8 million in 2003-04 and \$365.8 million General Fund annually, beginning in 2004-05.

Lastly, the Administration intends to submit a proposal in the spring to improve the quality of IHSS need assessments and reduce over-authorization of service hours. This would address the State-level case reviews finding that up to 25 percent of all paid services under the IHSS program may be unnecessary or not actually provided.

Foster Care

Foster Care Reform—The Budget includes \$1.1 billion (\$470.1 million General Fund) for foster care grants and administration. General Fund expenditures in the Foster Care Program have grown by 23 percent from 1998-99 to the 2003 Budget Act, while program caseload has declined by 9 percent during the same period. The primary reason for the cost growth has been increased placements in higher-cost Foster Family Agencies (FFA) and Group Homes.

To curtail growth in program expenditures and to improve outcomes for children, the Administration proposes program reforms to promote the care of more children in a family home environment and to shorten the period of time children spend in foster care, particularly more restrictive placements such as group homes. These proposals are expected to save approximately

\$20 million in 2004-05 and increasing amounts in out-years. Potential proposals could include the following:

- Restructuring the rates paid by the State for foster care facilities to encourage counties to increase the use of less-restrictive, less-costly placements and to establish a standard statewide rate for other high-cost specialized foster care services and payments.
- Requiring the higher-cost, higher-growth foster care providers (FFAs and Group Homes) to operate under performance-based contracts to require them to meet federal and State outcome measures, as a condition of payment.
- Pursuing a flexible funding waiver to apply federal foster care funds for flexible child welfare purposes including, prevention of child abuse and neglect, and intensive services to keep children with their birth parents and reduce out-of-home placements.

Programs for Immigrants

The Administration proposes to restructure and consolidate a number of health and human services programs for immigrants and fund them in a single block grant to be provided to counties to provide basic safety net services to this population. These programs include CalWORKs for recent documented immigrants, California Food Assistance Program, Cash Assistance Program for Immigrants, and Healthy Families Program for documented immigrants. The 2004-05 Governor's Budget reflects savings of \$6.6 million General Fund due to anticipated efficiencies resulting from this proposal.

Mid-Year Spending Reduction Proposal—The Administration has proposed to cap enrollment in a number of programs for immigrants to achieve General Fund savings of \$25 million in 2004-05.

Department of Developmental Services

The Budget includes \$3.4 billion (\$2.2 billion General Fund), an increase of \$129 million (\$55.9 million General Fund) above the



2003 Budget Act for programs serving more than 200,000 persons with developmental disabilities.

Regional Centers

The Governor's Budget includes a net increase of \$154.4 million (\$108 million General Fund) over revised current year estimates for 2004-05 due to increased caseload, higher service utilization rates, and the transfer of the habilitation services program from the Department of Rehabilitation effective July 1, 2004. The regional center population is projected to increase by 6,195 consumers, to nearly 200,000.

The Governor's Budget does not propose to create a cap on caseload or eliminate services, and presents an alternative approach to achieve savings while continuing to provide services to everyone that is eligible. These proposals recognize that program costs have grown 244 percent over the past ten years, and that California cannot sustain future growth and costs of this magnitude. Major program changes include the following:

- **Regional Center Cost Containment**—Anticipated savings of \$100 million General Fund by requiring a co-payment from those who can afford to pay, a requirement that services be provided in the least costly manner possible, and the implementation of statewide purchase of service standards across the 21 regional centers.
- **Transfer of Title XX Grant Funding to Regional Centers**—A reduction of \$48 million General Fund to reflect a shift of Title XX funding to regional centers.
- **Unallocated Reduction to Regional Center Administration**—A reduction of \$6.5 million General Fund to achieve savings in the regional centers operations.

Developmental Centers

The developmental center budget includes a decrease of \$24.8 million (\$5.1 million General Fund increase) compared to the revised current year estimates as the result of a decreasing

population. The developmental center population is projected to decline by 160 consumers from 3,550 to 3,390.

As the developmental center population continues to decline, and the community's capacity to support individuals with significant medical needs expands, there will be more opportunities to provide services to individuals in the community. As part of the Agnews Developmental Center closure plan, due to the Legislature April 1, 2004, the Administration will begin to address the long-term strategy for operation of the developmental center system.

Increased Contracting for Non-Direct Care Services—The Administration proposes that developmental center food services be provided through contract, to produce more cost-effective and higher-quality services for developmental center residents.

Department of Mental Health

The Governor's Budget includes \$2.5 billion (\$910.7 million General Fund), a net increase of \$373.4 million (\$39 million General Fund) above the 2003 Budget Act for mental health programs.

State Hospitals—The Governor's Budget includes \$702.4 million (\$560.8 million General Fund), a net increase of \$31.6 million (\$36.4 million General Fund) above the 2003 Budget Act for state hospitals. This funding level will support a total caseload of 4,605 state hospital commitments. Over the last ten years, the General Fund of operating the four state hospitals has increased 124 percent. In order to address both the increased per patient costs and unsustainable General Fund expenditures, it is necessary to reform how state hospital services and related clinical functions are provided to mentally ill individuals with criminal histories. The following significant adjustments are included in the 2004-05 Budget:

- **Indeterminate Commitment of Sexually Violent Predators (SVPs)**—A reduction of \$2 million General Fund by changing the SVP commitment from two years to an indeterminate length in order to eliminate unnecessary evaluations and re-commitment trials.



- **SVP Treatment Reform**—A decrease of \$823,000 General Fund to reflect proposed restructuring of the supervision and treatment services provided to SVP patients. Savings from this reform are estimated to be \$9.2 million beginning in 2005-06.
- **Civil Commitment Trials Held Prior to Release from Prison**—As conducted in other states, the Budget proposes holding SVPs in local custody if they have completed a prison sentence and are awaiting a commitment hearing. Savings of \$10.7 million General Fund are estimated in 2004-05.
- **Maintain State Hospital Population**—An anticipated savings of \$2.8 million (\$3.7 million General Fund) to reflect a proposal to prioritize patient intake based on the need for treatment. This proposal is necessary to curtail the unsustainable growth in General Fund expenditures for judicially committed patients.

Early Periodic Screening Diagnosis and Treatment Program (EPSDT)—This program entitles approximately 170,000 Medical eligible children and young adults to receive any service that ameliorates a diagnosed mental illness. The Administration is committed to continuing vital mental health services for children and young adults, and the Budget includes \$787 million (\$365 million General Fund) to maintain these services.

However, in the last five years General Fund expenditures increased by 285 percent and the 2004-05 Governor's Budget proposes several measures that will allow California to continue to provide necessary mental health services to children and young adults.

The following significant adjustments are included in the 2004-05 Budget:

- **Update Maximum Rates**—An adjustment of rates based on a survey of actual costs as indicated under the State's federal plan is estimated to generate savings of \$40 million General Fund.
- **Increased Oversight**—A net savings of \$5.7 million General Fund to reflect the implementation of targeted audits of claims.

- **Federal Relief**—Consistent with the larger Medi-Cal reform effort, the State will also pursue federal authority to narrow the very broad medical necessity criteria, in order to allow California to maintain its commitment to the children and young adults most in need of mental health services.
- **Restructuring of Existing Programs**—Given the availability of a wide range of medically necessary services and large numbers of needy children and young adults receiving services under the EPSDT program, it is no longer necessary to continue the Children's System of Care program.

Community Mental Health Services—The Budget includes \$1.8 billion (\$298.6 million General Fund), a net increase of \$304.2 million compared to the 2003 Budget Act, for community mental health services. The Administration remains committed to providing mental health services through the following programs:

- **Managed Care**—An increase of \$10 million (\$5.1 million General Fund) to reflect increased caseload.
- **Integrated Services for the Homeless**—The Budget continues funding of \$54.9 million General Fund for the Integrated Services for Homeless Adults program. This program has a proven track record of success in treating and providing services to the mentally ill, and provides essential fiscal relief to counties in these difficult times.
- **Preadmission Screening and Residential Review**—An increase of \$1.9 million (\$470,000 General Fund) is proposed for the expansion of the Preadmission Screening and Residential Review Program. Through this program, individuals admitted to nursing homes are evaluated to determine if specialized mental health treatment alternatives that are available in communities at lower costs, can better meet their needs.



Department of Alcohol and Drug Programs

The Department of Alcohol and Drug Programs oversees a variety of alcohol and drug treatment and prevention programs. The Budget includes \$597.8 million (\$237.8 million General Fund), a net increase of \$5.1 million (\$2.4 million General Fund) above the 2003 Budget Act for substance abuse prevention programs.

Adjustments for 2004-05:

Performance Partnership Grants—The Budget includes an increase of \$260,000 federal funds to collect outcome data as part of the federal government's Performance Partnership funding process.

Drug Medi-Cal—An estimated 67,000 individuals will receive substance abuse treatment services in 2004-05. Services provided include perinatal treatment, narcotic treatment, and outpatient drug-free therapy. The Budget includes an increase of \$3.1 million General Fund for caseload and utilization changes, while proposing to maintain rates at current levels.

Screening, Brief Intervention, Referral and Treatment Program—The State has received a \$3.5 million federal grant for brief intervention and treatment pilot programs, which can be an effective method for working with casual drug users to prevent future substance abuse. Funding will be allocated to selected counties and outcome data will be reported to the Department.

Emergency Medical Services Authority

Hospital Bioterrorism Preparedness Program—The Budget proposes that \$6 million in federal grant funds be utilized to support specific anti-bioterrorism activities by the State and its counties. The grant funds have been awarded by the federal Health Resources and Services Administration to the DHS, as part of a larger grant, and will be passed through to the Emergency Medical Services Authority. Specifically, the \$6 million will be used to increase the hospital, community clinic, and Emergency Medical System (EMS) capacity to respond to injuries and illnesses that result from incidents of bioterrorism, develop mutual aid plans to serve areas not currently covered by EMS agencies in the event of

acts of bioterrorism, and enhance the capability of the California Poison Control System to report data suggestive of bioterrorism actions to local and State health departments in a timely manner.

Office of Statewide Health Planning and Development

Health Facility Building Plan Approval—The Facilities Development Division is responsible for overseeing all aspects of general acute care hospital, psychiatric hospital, and multi-story skilled nursing home and intermediate care facility construction in California to ensure the facilities are safe and available to provide care in the event of a major disaster. The Division manages these responsibilities by developing building standards, approving building plans, and observing construction to ensure the facilities meet State and federal standards. A statutory fee is charged to health facilities at the time of plan submission, which is deposited in the Hospital Building Fund, to support the activities of the Division. The Budget provides a total of \$27.6 million and 193 personnel years. To provide timely approval of building plans for the Division and avoid costly construction delays, the Budget reflects the addition of 44 personnel years and \$5.4 million Hospital Building Fund for increased Division workload.

Healthcare Professionals for Medically Underserved Areas—In order to provide support to persons in medically underserved areas, the Administration is continuing scholarships and loan repayment grants to students and practicing healthcare professionals who agree to practice in these areas of the State. The Budget provides a total of \$4.1 million for scholarships and loan repayment grants. The Budget includes an additional \$650,000 Registered Nurse Education Fund to increase the scholarship and loan repayment amounts awarded to registered nurses and registered nursing students. In addition, the Administration for the first time is providing support for licensed mental health practitioners of \$206,000 Mental Health Practitioner Education Fund for loan repayment awards, and \$131,000 Vocational Nurse Education Fund for scholarships and loan repayments for vocational nurses and vocational nursing students. All awardees from these programs must agree to serve a minimum of one year in a medically underserved area of California.



Department of Child Support Services

Chapters 478 and 480, Statutes of 1999, established the DCSS and authorized the implementation of a single, statewide child support system comprised of local child support agencies under the supervision of the new Department. The Budget proposes approximately \$1.3 billion (\$499 million General Fund) and 320 personnel years for this purpose.

County Administration—The 2004-05 Budget proposes \$193.3 million General Fund for local agency administrative costs. While this represents a reduction from the amount derived from the methodology prescribed in statute to support local agency costs, it generally provides the same level of funding for local program expenditures that was provided in 2003-04.

Child Support Collections—For 2004-05, child support collections are projected to be \$2.4 billion (\$364.5 million General Fund), an increase of \$205 million (\$52.5 million) General Fund above the 2002-03 actual collections of \$2.2 billion (\$312 million General Fund). The 2003-04 projections reflect an increase in the collections of \$11 million General Fund compared to the 2002 May Revision projections, which is attributable to the anticipation of increased child support collections as the result of the Collections Enhancement initiative. In general, collections to reimburse governments for public assistance costs continue to decline as the child support caseload shifts from custodial parents who receive public assistance to those who have never, or no longer receive public assistance.

Child Support Automation—Chapter 479, Statutes of 1999, designated the Franchise Tax Board as the agent of the Department for the procurement, development, implementation, and maintenance and operation of the California Child Support Automation System (CCSAS). The State is responsible for developing and implementing the CCSAS and transitioning all counties onto this new system. In June 2003, the State entered into a contract with IBM Global Services to develop and implement the Child Support Enforcement component of the CCSAS. The State expects to have the new system completed by 2008-09.

County Share of the Alternative Federal Penalty—As a result of California's delay in implementing a single, statewide-automated

system, the federal government has levied significant federal penalties against the State. In 2003-04, the federal penalty is estimated to be \$195 million. Counties will pay 25 percent of the penalty in 2003-04, which offsets \$48.7 million in General Fund costs. This sharing ratio is consistent with that required for other social service programs. The Administration proposes that counties continue to pay a 25 percent share of the penalty in 2004-05 and future years. The county share of the penalty in 2004-05 would be \$55 million.

County Share of Child Support Collections—It is proposed that the county share of child support collections be eliminated, and the dollars remitted as General Fund revenue in lieu of requiring further reductions to the Child Support Program. This will result in additional General Fund revenues of \$39.4 million, which are included in the revenue projections noted above.

California Department of Aging

The Budget proposes \$185.3 million (\$33.4 million General Fund) to carry out the Department's programs in 2004-05. This includes the major budget adjustments discussed below.

Long-Term Care Ombudsman Program—The Administration has demonstrated its strong support for quality of care provided to nursing home residents by proposing additional funding to expand the Long-Term Care Ombudsman Program. The Budget reflects total funding of \$12.3 million, an increase of \$2.3 million in Federal Medicaid reimbursements. This funding will enable the Long-Term Care Ombudsman Program to enhance the State's presence in approximately 6,400 residential care facilities for the elderly.

Block Grant—The Administration proposes to convert State support for Aging programs to a block grant and reduce General Fund support by 5 percent (\$1.7 million General Fund). The block grant is expected to improve the efficiency of administering the various Aging programs that serve the elderly. The block grant will provide more flexibility to utilize grant resources to better match local priorities and needs.

